

Message Text

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ACTION AF-10

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02
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R 231734Z JAN 78
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 2313
INFO AMEMBASSY LAGOS
AMEMBASSY PRETORIA
AMCONSUL CAPE TOWN
AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
AMEMBASSY LUXEMBOURG
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY THE HAGUE

C O N F I D E N T I A L LONDON 01195

USEEC ALSO FOR EMBASSY

USOECD ALSO FOR EMBASSY

E.O.11652: GDS
TAGS: EINV, UK, SF, EFIN
SUBJECT: UK GOVERNMENT POLICY ON INVESTMENT IN SOUTH
AFRICA

REF: STATE 14220 (NOTAL)

1. THE ECONOMIST FOREIGN REPORT OF JANUARY 11 ACCURATELY
QUOTED CHANCELLOR OF THE EXCHEQUER HEALEY SAYING IN THE
HOUSE OF COMMONS: "I GIVE THE ASSURANCE THAT THE GOVERN-
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MENT INTENDS TO DISCOURAGE INVESTMENT BY BRITISH INDUSTRY
IN SOUTH AFRICA." HOWEVER, ACCORDING TO HM TREASURY
OFFICIALS, THIS REMARK WAS MADE "OFF THE CUFF" DURING
DEBATE ON ANOTHER SUBJECT AND THERE WAS NO INTENT TO
INDICATE A CHANGE OF UK POLICY OR TO SIGNAL ANY APPROACH-
ING CHANGES.

2. HEALEY'S STATEMENT WAS MADE NOVEMBER 10, 1977 DURING A QUESTION AND DISCUSSION PERIOD CONCERNING EXCHANGE CONTROLS ON OUTWARD INVESTMENT. IN AN UNEXPECTED SUPPLEMENTARY QUESTION, HEALEY WAS ASKED TO "ENSURE THAT THERE IS NO FURTHER INVESTMENT IN SOUTH AFRICA BY BRITISH INDUSTRIES." HEALEY WAS APPARENTLY TAKEN BY SURPRISE AND DURING THE COURSE OF A RAPID EXCHANGE WENT FURTHER THAN HE INTENDED. WE DISCUSSED ISSUE IN DETAIL WITH DAVID HANCOCK, UNDERSECRETARY AT HM TREASURY, WHO OUTLINED THE GOVERNMENT'S POSITION ON INVESTMENT BY BRITISH INDUSTRY IN SOUTH AFRICA AS FOLLOWS:

(A) BECAUSE OF THE UNCERTAINTY AND HIGH RISK OF SOCIAL DISRUPTION IN SOUTH AFRICA, BRITISH INVESTORS MUST PRUDENTLY DRAW THEIR OWN CONCLUSIONS, REASSESSING THE VALUE OF DOING BUSINESS IN SUCH A MARKET. (THIS WAS THE POINT HEALEY INTENDED TO CONVEY IN HIS ANSWER ON NOVEMBER 10.) HMG NOTES THAT MANY BRITISH FIRMS ARE ALREADY DRAWING A LESSON FROM THE SIGNS AND THE FLOW OF NEW INVESTMENT INTO SOUTH AFRICA HAS "VIRTUALLY CEASED."

(B) IN REACHING DECISIONS ON RELATIONS WITH SOUTH AFRICA, HOWEVER, HMG MUST TAKE ACCOUNT OF THE MAJOR BRITISH ECONOMIC LINKS WITH THAT COUNTRY. JOBS AND PRODUCTION WOULD BE LOST IF THE CONNECTION IS BROKEN. ALSO, THE UK IS HEAVILY DEPENDENT ON SOUTH AFRICA FOR THE SUPPLY OF CERTAIN KEY RAW MATERIALS SUCH AS CHROME, PLATINUM, VANADIUM AND MANGANESE.
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(C) CHANCELLOR HEALEY DOES NOT BELIEVE THAT UN ECONOMIC ACTIONS AGAINST SOUTH AFRICA WOULD MAKE A SIGNIFICANT DIFFERENCE TO ITS POLICY OF APARTHEID. SUCH ACTION MIGHT FURTHER INJURE THE ECONOMIC INTERESTS OF NON-WHITE SOUTH AFRICANS WORKING THERE.

(D) HMG WILL CONTINUE TO CONSULT FULLY ON SOUTH AFRICAN ISSUES WITH ITS MAJOR INDUSTRIAL PARTNERS.

3. FOREIGN OFFICE AND DEPARTMENT OF TRADE OFFICIALS HAVE ALSO UNDERLINED TO US THE UNINTENTIONAL NATURE OF HEALEY'S REMARKS ON THE 10TH.

4. IN SUM, THERE APPEARS TO BE NO CHANGE IN THE BASIC UK POSTURE OF CONDEMNING APARTHEID, LEAVING INVESTMENT DECISIONS TO INDIVIDUAL BUSINESSMEN, GUARDING A SUBSTANTIAL ECONOMIC INVESTMENT, AND EXPRESSING SKEPTICISM THAT INTERNATIONAL SANCTIONS WOULD AFFECT APARTHEID POLICIES.

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